

Financial Sector Annual Review and Strategy Forum

**Accounting Reform - The Russian
Case-Study: SEGIR-FS Technical
Assistance to the Inter-Agency
Coordination Committee - Accounting
and Reporting Working Group**



SETTING THE STAGE

- August 1998 financial crisis causes loss of confidence in the banking sector.
- In response, the Central Bank of Russia (CBR) establishes the Inter-Agency Coordinating Committee (IACC):
 - IACC Members are CBR, MinFin, ARCO, commercial banks and donors (including IMF, World Bank, USAID, EU/Tacis).
 - IACC is divided into working groups - bank restructuring, supervision, legal, accounting, operations and training.
- USAID technical assistance support agreed in 1999.
- DAI project commences March 1, 2000.
- In the third quarter 2000, CBR starts a similar TA project with EU/Tacis (PricewaterhouseCoopers as contractor).



CENTRAL FINANCIAL SECTOR ISSUES

- Restore the internal and external confidence in the Russian banking sector and contribute to its medium term stability;
- Improve existing bank transparency through changes in accounting and reporting regulations based on International Accounting Standards (IAS);
- Develop new regulations to support proper implementation and use of IAS by commercial banks;
- Improve quality of reporting to the Central Bank to enhance bank supervision;
- Train personnel of Central Bank, Commercial Banks, and Accounting Firms in IAS

RUSSIA PROJECT STRATEGY

TASK A - Provide support to the Reporting Committee, the Technical Accounting and the Training Committees of the IACC on Accounting Reform.

TASK B - Organize and conduct accounting pilot projects in selected commercial banks.



PROJECT OUTPUTS

TASK A

- Analyzed over 4,000 pages of documents to understand differences in Russia Accounting Standards, Tax Code, Civil Law, MinFin regulations and IAS.
- Became a resident advisor to the CBR to respond to many accounting issues, provide comments on proposed changes to regulations and assist in the preparation of new instructions.
- Revised implementation strategy to transformation of RAS data to IAS compliant financial statements (after CBR changed implementation date to January 1, 2004).
- Coordinated with EU/Tacis and other projects/donors on new accounting guidelines and instructions.



PROJECT OUTPUTS - continued

Coordination with others:

- Donors and institutions:
 - World Bank, IMF, ARCO, Ministry of Economy, Ministry of Finance, British KnowHow Fund (DfID) and Canadian Government TA programs.
- Coordination with other projects:
 - EU/Tacis - PricewaterhouseCoopers – CBR, EU/Tacis - KMPG - Min Fin, FIDP, ICAR, FIAR, and FSVC.



PROJECT OUTPUTS - continued

- Assisted in the presentation of the first CBR consolidated financial statements compliant with IAS (to satisfy World Bank and IMF requests).
- Implemented the IAS unit at CBR.
- Provided IAS training to 67 CBR staff in the Accounting, Supervision and General Economic departments.
- Provided Training of Trainers - the new trainers then trained over 400 supervision personnel in IAS.
- Provided IAS training to 40 participants at ARCO.
- Provided IAS Training in Samara, Novosibirsk, Omsk and Vladivostok (through FSVC) to 225 participants including chief accountants of CBR regional offices and commercial bank personnel.



PROJECT OUPUTS - continued

TASK B

- Two commercial bank pilot projects were completed by May 2001 (Moscow and Nizhny Novgorod) and the third bank in July 2001 (Rostov-on-Don).

At each bank, the project reviewed:

- Accounting methodology and systems to determine ability of banks to generate IAS compliant financial statements;
 - Internal controls and policies and procedures;
 - Existing management reporting for use in decision making; and
 - Methodology for transforming financial statements from RAS to IAS.
- From the review, case studies were created to use in other commercial banks.

The project also provided:

- An IAS workshop at each pilot bank (45 participants); and
- IAS lectures to 128 participants at three locations.



LOCATION OF TRAINING - IAS WORKSHOPS



TANGIBLE RESULTS

- Adoption of transition timeline nearly one year after its initial presentation.
- Agreement and public announcement for commercial banks to report to CBR using IAS compliant financial statements by January 1, 2004.
- Formation of IAS unit at CBR.
- Adoption of guidelines & formats for IAS compliant Cash Flow Statement Preparation.
- Revision of other instructions and guidelines revised for commercial bank reporting in accordance with IAS (completed under the EU/Tacis project).
- Creation of institutional capability within the pilot banks to prepare monthly IAS compliant financial statements without assistance of external auditors.
- Training at 12 workshops and other presentations included more than 500 participants and new trainers trained 400 CBR supervision personnel.
- Created a better understanding and acceptance of IAS concepts and application by a broader base of personnel at CBR and commercial banks.



LESSONS LEARNED AND FUTURE APPLICABILITY

Based on experience in Russia and five other countries:

- Immediately push for laws on current and future IAS compliant accounting.
- Translate Terms of Reference to be immediately shared with counterparts.
- Allow counterparts to comment on the work plan and share the final version.
- Consider funding salaries of IAS specialists for the Central Bank - qualified specialists are usually attracted to higher-paying private firms.
- Consider TA to universities to add IAS to curriculum.
- Provide significant training funds for current IAS and future IAS updates.
 - Thousands of personnel in accounting and supervision at the CBR, 10,000 accounting specialists at commercial banks, Hundreds working in external audit firms.



LESSONS LEARNED AND FUTURE APPLICABILITY

- Concentrate on long term accounting advisors. Short-term accounting advisors have limited success.
- Ensure initial buy-in from the Central Bank with written support.
- Conduct training in corporate governance for senior managers, line managers, and internal auditors within the commercial banks.
- Include international and local accounting firms and tax inspection personnel in the training process and technical assistance being given.
 - In Armenia, 8 of 9 financial statements purported to be in compliance with IAS were incorrect.
 - In Montenegro, the local office of a large international CPA firm gave incorrect advice on accrual of income tax liabilities.
 - Many countries are developing specialists within the tax inspectorates who will be responsible for tax audits and examinations for commercial banks.



LESSONS LEARNED AND FUTURE APPLICABILITY

- Focus on local accounting and consulting firms to provide IAS expertise. Otherwise, larger, international accounting firms will control the work at a higher cost.

